Reinsurers wilt in dog days of soft market

Reinsurers will continue to grapple with a competitive environment characterised by a sharp imbalance between supply and demand in 2017, where the maintenance of even adequate returns is dependent on prior-year reserve releases and benign cat experience.

The annual Monte Carlo war of rhetoric between brokers and reinsurers has again been in evidence as carriers insisted that they would not give up any more ground at 1 January, while intermediaries indicated that cedants would attempt to carve out further concessions.

But discussions on the Cote D’Azur have largely been marked by a feeling of stasis – with reinsurers slowly wilting in the dog days of a protracted soft market. The fundamentals have barely changed since 12 months ago, with little to suggest that the conditions are in place for change any time soon.

Traditional and now alternative capital are going sideways after years of ramping up, but there are no signs that capacity is exiting the space, while the prospect of increased demand has perhaps been overstated by the understandable focus on wounded behemoths like AIG and Zurich. Pitted against the downward pressure caused by the supply-demand imbalance is the industry’s growing conviction that reinsurers cannot live with a further erosion of already depressed returns.

Since meetings began at Monte Carlo on Saturday, reinsurers have stressed repeatedly that with interest rates at zero and the volatility inherent in their business models, they cannot be expected to continue serving up their capital as rates fall.

Reinsurers have argued that the rating environment is already unsustainable, with returns on a normalised basis sliding towards mid-single-digits, and that the latent distress necessitates a pricing correction – or, at a minimum, a halt to reductions.

But the narrative reinsurers have been pushing for has not been helped by the steady share price performance of many carriers in the year-to-date, with most of Bermuda and London flat or up for 2016 so far, and only the continental reinsurers down by double digits.

With reported results still good enough to interest investors willing to take a pragmatic approach to returns in a negative yield environment, it is questionable whether the story of an industry stretched to breaking point can gain real traction in the run-up to January.

Seasoned sources told this publication that reinsurers will struggle to fully stem rate reductions until weak underlying results become quarterly losses, and capital is ultimately eroded.

A levelling off of rate reductions that leaves cedants with a final round of modest rate cuts may be the best reinsurers can hope for in most lines and geographies.

Evidence of the cycle bottoming out

Although market dynamics closely resemble those of last year, there is some evidence that the soft cycle is inching towards its closing stages.

Sources explained that there has been increased interest in reinsurance transactions to take reserves off balance sheets, perhaps reflecting a gathering anxiety about future reserve adequacy. In addition, some sources said that there was evidence of cedants looking to buy down retentions, with opportunistic quota share buying also seen as a marker of the latter stages of a soft market.

Others pointed to the mid-year renewals, with one suggesting that a dozen of the 40
Bringing Clarity

To Complexity

Barbican has been delivering consistency, reliability and value for clients and brokers since 2007. Underwriting across a broad spectrum of business classes, our reputation for being a professional and approachable underwriter is well established. Developing comprehensive and often unique insurance and reinsurance solutions for even the most challenging risks, our experience, underwriting acumen, responsiveness and fresh thinking make the difference.

www.barbicaninsurance.com
The secret’s out

This is a great industry. I love it. I always have done and I always will do.

I worked as a broker for eight very enjoyable and fulfilling years. The business encouraged me to travel, speak foreign languages on a daily basis and befriend as many people as I could along the way. It allowed me to live abroad and constantly challenged me to come up with new ways of doing old things. I got a lot out of it. It taught me skills that have been useful and applicable in many other spheres of my life.

Then came the bonus. This business didn’t mind me leaving to go and do something else for a while. When I came back as a journalist writing about our sector, it welcomed me with open arms. It was like I had never left. I’ve now spent far longer as a journalist covering our industry than when I worked in it directly.

So let’s get this straight – this sector is far better at people management than it gives itself credit for. We’re always beating ourselves up about our lack of talent attraction and development skills, yet I lose count of the number of senior figures who strongly encourage their offspring to come and work in the business.

If that isn’t a ringing endorsement, I don’t know what is.

It is also a moral and honest business. Okay, not everybody in it is that moral and some are not even that honest, but the sector as a whole is guided by a higher social and moral purpose. Our work helps make good things happen and we deal calmly with the consequences when the opposite occurs.

Meanwhile, the greedy and less-than-100-percent-straight are always found out and ultimately sidelined by the rest of the market.

This may be a global business, but it is one based on collective collaboration and mutual trust between limited groups. If you behave badly word gets around and you swiftly run out of serious counterparties.

The strong strain of natural justice running through the sector means that the bad apples end up being able to do business only with each other. Bad cedants find themselves working with bad reinsurers, with the inevitable long-term consequences for both.

So we are pretty well rounded – what’s our weakness?

If there is any failing in this sector it is its tendency to exaggerate the negative and play down the positive.

Some of this comes from a natural humility that is borne of the knowledge that at any time even the mightiest can be swiftly brought down to earth by events.

But even here we are in fact being falsely modest. Our true motive is a canny desire to keep the good thing we have going for ourselves secret from the uninitiated. The problem is that since the Bermuda start-ups of the 1980s and the classes of 1993, 2001 and 2005, the secret is out.

Smart capital has our number and knows that we are a great place to make outsized returns if you can take the volatility.

Perhaps we should never have invited this capital in – but it’s too late now. And however bad we think things are getting, today’s meagre projected returns are still comparing more than favourably with other investible sectors.

As one senior executive put it on Sunday night, with a post-dinner drink in his hand, standing outside on a terrace overlooking the Mediterranean: “In this industry we always complain, but there are few businesses in the world that are as good as this.”
Beach to enter marine and set up Zurich office

Beach & Associates is set to enter the marine reinsurance market for the first time and set up an office in Zurich after hiring a brace of executives.

Rick Thomas, managing director at Willis Re, is leaving his role to join the US broker in November to set up an office in Zurich, The Insurance Insider understands.

The insurance-linked securities and modelling specialist has been at Willis since January 2013, having moved there from the broker’s abortive cat-focused start-up Hendiatris, where he was a partner for almost two years.

Thomas also spent time at PartnerRe, latterly as head of retrocession and risk management.

The move to Beach will reunite Thomas with Jason Howard, who is the CEO for London and international at the broker. The pair worked together at Hendiatris.

Beach’s decision to open an office in Zurich sets the company apart from some of its peers. The city is relatively under-served in terms of reinsurance brokers, with most of Beach’s competitors choosing to fly in from other European destinations to carry out business, rather than maintaining a permanent base.

Beach already has operations in London, Bermuda, New York and Toronto.

Separately, Beach has hired Kevin Naylor to spearhead a move into marine reinsurance. Naylor joins from Aon Benfield.

The two hires are the latest example of Beach’s growth ambitions.

In November, the expansive reinsurance intermediary agreed a deal to take a team of brokers and their business out of US Re.

Brexit just ‘extra hassle’: Lloyd’s CEO

Lloyd’s CEO Inga Beale played down the challenge to the market’s prospects posed by the pending Brexit, describing the outcome of the recent referendum as “extra hassle”.

Speaking to The Insurance Insider at the Monte Carlo Rendez-Vous, she said: “Most people I speak to are not concerned about it,” acknowledging that market modernisation and broader distribution challenges are more pressing issues for the market.

Beale also gave a strong signal as to the likely path that Lloyd’s will take as it attempts to safeguard the small share of continental European insurance business that it currently writes.

The Lloyd’s CEO said that the Corporation would either look to set up individual branches in key EU countries, or set up a capitalised company in Europe that could resemble Lloyd’s China in some ways.

Taking a country-by-country approach to negotiating access would “take longer” and “require more resource”, as well as being “more costly”, Beale explained.

The other approach – which she described as “a mirror Lloyd’s, a subsidiary model” – would be more direct.

However, the CEO said that it could create complexity around the way that capital is allocated between syndicates and the employment status of staff.

Beale said that director of global markets Vincent Vandendael, who is leading for Lloyd’s on Brexit, and his team are scheduled to finish their analysis of the market’s options by year-end.

After the analysis is complete, Lloyd’s will present the findings to the market and engage in a dialogue with stakeholders on its options, she added.

Beale stressed that Lloyd’s had the capacity to handle Brexit without other organisational priorities suffering.

“We have only de-prioritised one area – the [market loss] index,” Beale said, referencing the Corporation’s recent decision to mothball a major project that would have facilitated the creation of index-related products for the London market.

Beale’s comments followed a high profile speech at a London City dinner from Lloyd’s chairman John Nelson last week that centred on Brexit.

The executive, who campaigned for the UK to remain in Europe, tried to link the UK’s proposed withdrawal from the EU to the regulatory environment by asserting the need for the country to maintain its competitiveness.

“There is an opportunity for us to look at the regulatory framework objectively and ask ourselves: is it giving us every chance to succeed?”

Nelson went on to tell his audience that although a tough and prudential regulatory regime was necessary, “there is scope to ask ourselves whether some of the rest of the regulatory framework is overly burdensome”.

“The short answer is that it is,” he concluded.

PCS: Louisiana floods generate $670mn in auto losses

The Louisiana floods have caused significant losses for the region’s automotive insurers, with PCS estimating that auto claims from the event have reached $669mn, sister title Trading Risk revealed yesterday (12 September).

The auto claims made up almost two-thirds of the agency’s total industry loss estimate from the event of $1.06bn.

Tom Johansmeyer, PCS assistant vice president of strategy and development, said the breakdown of losses from the disaster was highly unusual for a US cat event.

Typically, personal lines claims account for 60-70 percent of insured losses from an event, he explained, but the Louisiana flood inverted this pattern.

This is due to the fact that homeowner flood losses, where covered in the US, are picked up by the state-backed National Flood Insurance Program. However, auto policies will provide flood cover.

The Louisiana flood is not the first US cat event of 2016 to disproportionately hit the auto market. Severe hailstorms in Texas have also been significant for the market, although claims levels are not known.

Last month, The Insurance Insider revealed that Louisiana homeowners’ insurers were largely expected to escape a significant loss burden from the floods, given that flood cover is not typically included in homeowners’ policies.

However, one area of exposure for insurers might be where they have significant portfolios of mobile home business on their books.

A number of mobile home carriers in the state allow flood to be endorsed to their property policies.

Indeed, Louisiana carrier Maison’s listed parent 1347 Property Insurance Holdings said on 23 August that it expected to incur losses from claims related to damage from the storms that caused the flooding.
Chris Beazley to become LMG CEO

Chris Beazley, head of global clients for reinsurance at Amlin, is set to become the next CEO of the London Market Group (LMG), The Insurance Insider can reveal.

Sources have indicated that a contract is yet to be signed, but that Beazley was the clear frontrunner for the role.

Beazley has been at Amlin since 2007, having held a number of roles, including managing director of the reinsurance practice and marine underwriting and operations manager. Before joining Amlin he worked at Willis for six years.

If the appointment is confirmed, Beazley will take up the permanent position of LMG CEO from Benedict Reid, who has led the market body for just over year on a secondment from EY.

Under his leadership, the LMG has sought to implement a wide-ranging modernisation programme designed to improve London market efficiency and retain the city’s competitive position in the global (re)insurance industry.

The LMG has claimed the Target Operating Model (Tom) will deliver £223mn ($296mn) of savings a year to the carrier market.

The current Tom priorities are its electronic placing programme, its central service refresh programme – or how money moves through the system – delegated authorities and the free movement of data around the market.

Lloyd’s director of operations Shirine Khoury-Haq has said claims and insurance tax calculations are contenders to be the next areas of focus.

Some in the market have thrown doubt on the Tom, which is expected to cost the market around £250mn to implement.

XL Catlin chief experience officer Paul Jardine said in June that the initiative does not go far enough to take costs out of the market.

There have also been concerns around funding for the Tom, for which the Lloyd’s market pays a levy but the company market does not.

Insider View: The hardest job in the London market

Chris Beazley has quite a job in front of him, assuming that he signs on the dotted line. The incoming London Market Group (LMG) CEO will have to find a way to execute an ambitious and evolving programme of modernisation for a market that has been notoriously resistant to change in the past.

In so doing he will need to find a way to keep a disparate collection of Lloyd’s managing agents, company market insurers and brokers on board, despite at-times divergent interests and ever-present differences of opinion.

Beazley will need to cajole, flatter and politick as he seeks to keep the uneasy alliance of stakeholders together. The LMG CEO has to be the ultimate coalition-builder, as well as an accomplished doer. He will have to work out which battles to pick and which to concede. He will need to choose his friends wisely, and those he can afford to alienate even more carefully.

It is a daunting task for anyone to have the execution of the Target Operating Model (Tom) resting on their shoulders. But Beazley will start with the advantage of broad-based buy-in from the market. The Steering Committee is something of a who’s who of the London market and every CEO in the City seems to have reached the conclusion that it is imperative now for EC3 to address its process failings.

There are some who are privately critical of the LMG and who believe that the priorities identified for the Tom are not the right ones. But there is a universal will – born of necessity and a fear not present before – to embrace change and that is something that the incoming CEO will be able to harness to drive the change programme forward.

We wish him well.

Munich Re backs local government earthquake insurance

Munich Re has underlined its willingness to underwrite earthquake insurance for local governments.

Speaking at the Monte Carlo Rendez-Vous on Sunday, Munich Re board member Torsten Jeworrek said he was surprised more local governments were not considering earthquake coverage.

The reinsurer is currently working with the Municipal Insurance Association of British Columbia on a scheme that could source up to $200mn of insurance cover for the Canadian province within five years.

“To insure against fire but not earthquake is counter intuitive,” he said.

“We are looking at whether it needs to be supported by banks or regulation because from an economic perspective... if an earthquake occurs, that affects the overall economy of a country and the wealth of a country over a longer time.”

The British Columbia scheme would rely on getting at least five municipalities involved to create a large enough pool of risk.

The province faces a one-in-three chance that an earthquake strong enough to cause significant damage will hit its western edge in the next 50 years, according to Natural Resources Canada.

Other cat-exposed North American cities that are looking to protect themselves against a natural disaster include New Orleans, which has been investigating ways to protect its infrastructure with Swiss Re. Swiss Re and other parties last year launched the concept of “resilience bonds”, which could provide local authorities with insurance while giving them premium rebates if specific projects were carried out to reduce the underlying risk.

Speaking at Sunday’s press conference, Munich Re executives admitted the current reinsurance environment was tough but said the company intended to innovate in order to navigate the challenging landscape.

The reinsurer said it had developed epidemic solutions, which could be attractive for hospitals, mining operations, airports, manufacturers and airlines.

Growth in cyber reinsurance was also expected, said board member Thomas Blunck.

Munich Re said it was also in an intensive dialogue with pension funds regarding insurance-linked securities products and that the current margins on such products were proving attractive for them.

“We can sense them moving into other lines of business,” Blunck added.
Expect price stability at 1 January: Hannover Re

Hannover Re chairman and CEO Ulrich Wallin has predicted that treaty pricing will remain stable at the 1 January renewals as the impact of attritional losses and pressure on returns takes hold.

Speaking at a press breakfast at the Monte Carlo Rendez-Vous yesterday, Wallin said that while the market remained virtually unchanged in 2016, reinsurers could find opportunities for rate increases, particularly in countries heavily affected by recent losses, including Germany and Canada. The executive added that demand was still ticking up by single digits, and premium growth remained steady.

Wallin noted that the record low interest rate environment meant reinsurers would have to improve technical profit margins. Interest rates, while historically low, are still at acceptable levels, and reinsurers will have to improve their combined ratios to remain profitable if interest rates do not improve. Hannover Re added that it does not view the mortgage reinsurance market as a prime opportunity, as it does not align with its trade credit underwriting strategy.

It highlighted the lack of demand stability in the market, and the potential for reinsurance to dissipate in the face of large losses in the segment.

“What is crucial for us in this situation is to only write business that satisfies our margin requirements, even if this leads to lower premium income”

The emerging risk potential of cyber cover was also singled out, with the carrier saying the business was becoming part of its balanced portfolio, bringing in around $100mn of income with a positive loss ratio. While there have been a number of costly incidents, the level of insurance penetration remains low, with the low-value incidents not yet impacting the reinsurance markets. Hannover Re also reiterated its willingness to relinquish inadequately priced business in the soft market, and said it was on track to book either a stable or slightly decreased gross premium volume and net income of EUR950mn in 2016.

Wallin commented: “What is crucial for us in this situation is to only write business that satisfies our margin requirements, even if this leads to lower premium income.” Elsewhere, the reinsurer said it was monitoring the situation in Iran and would seek to write business in the country when and if it could guarantee the payment of claims and premiums stemming from the country.

Member of the executive board Jürgen Gräber said: “Of course, with the change of the sanctions as far as Iran is concerned all reinsurers will look at the question of should we enter Iran.” He continued: “But a precondition is of course that we can satisfy ourselves that we can facilitate the necessary payments to receive premium or pay claims, and so far there has been no clearance from the banking system in the European Union that would allow us to facilitate those payments.”

Pricing floor in sight: Swiss Re

The bottom of the market cycle is now close after years of continued pressure on pricing, according to Swiss Re.

Speaking at the reinsurance giant’s press briefing at the Monte Carlo Rendez-Vous yesterday, group chief underwriting officer Matthias Weber said that the industry had suffered price erosion for several years in a row but that he believed it would stop in the near future.

“Maybe we have reached [the pricing floor] already,” he said, but hastened to add that some in the industry would argue that it was only “very near”.

Weber said that price erosion in natural catastrophe business lines was expected to slow down and that the rate of decline had decelerated already in some markets and segments, including in motor.

“Reinsurance and insurance rates on the motor side have started to harden already. We believe this trend will continue,” he added.

Moses Ojeisekhoba, CEO of reinsurance, added that part of the reinsurance industry’s attraction for investors was its good luck – otherwise known as the absence of natural catastrophe loss.

“If you were to normalise those things out, the picture is not nearly as good as it looks,” he continued.

The executive said that this forced companies to put a lot of pressure on costs, at the expense of innovation and creativity, which he argued was essential to closing the protection gap.

Group CEO Christian Mumenthaler said that continued underwriting discipline in the near term was important for operating in current market conditions.

He added that another important aspect of coping with the challenging environment was to “focus on large tailored transactions, which are typically done outside the renewals season”.

Yesterday, Swiss Re published a report which predicted that technological developments would profoundly change the way in which the (re)insurance industry developed, distributed and administered the insurance protection it sells.

The carrier said technologies such as cognitive and cloud computing, as well as big data, would simplify and accelerate the industry’s underwriting process and reduce the price of insurance protection overall. “This development will allow insurers to tap into the vast insurance protection gap and build up new revenue streams,” the reinsurer said.

Swiss Re said that e-distribution, the Internet of Things and blockchain were among the technologies expected to shift risk pools and create new opportunities, and added that unlocking new risk pools was part of its future strategy.

The company said it was investing in creating product offerings for new and peak perils arising from technological advancements such as telematics, cyber and accumulation risks.
Social media, big data or your data: Today’s information technologies promise to enrich every area of our lives. But they also pose real risks—from fraud and identity theft to industrial espionage and cyberattacks. We work together with you to identify the full range of opportunities and threats, with solutions for mitigating them. It’s how we make technology work for you.

Learn more at www.munichre.com

To stop the bad guys, partner with the good guys.

NOT IF, BUT HOW
Hedge fund reinsurance a failure: Kessler

Scor CEO and chairman Denis Kessler dismissed the hedge fund reinsurance model at the 2016 Monte Carlo Rendez-Vous yesterday.

“Hedge fund re was the talk of the town three years ago in Monte Carlo. For me it’s a failure,” he said at a PwC press briefing.

The Scor executive told delegates that the model was going nowhere, adding that the predictions that hedge fund reinsurers would fundamentally change the industry had amounted to nothing.

“Be careful, hedge fund re is coming, look at your back, they said. I turn around and nothing,” Kessler said.

Kessler also declared that there was a severe protection gap in both developing nations and in areas of developed economies.

The CEO said that the protection gap amounted to roughly 70 percent and cited the Italy earthquake last month as an example of underinsurance in Europe.

“Much of the damage will be borne by people, instead of being insured and reinsured. I’m not talking about the emerging countries of the world. I am talking about Europe today. We need to do our best to bridge this gap,” Kessler said.

He went on to say that closing the gap meant not just providing more insurance for catastrophes, but also for other types of coverage, including mortality and disability.

“All types of risks are underinsured and I believe that this is a fantastic opportunity for reinsurers. Instead of complaining how tough it is for us, we should go and try to bridge the protection gap,” Kessler added that there was no contestability issue for reinsurers and that he believed that nothing could replace reinsurance.

He said that while there were difficulties, there were also opportunities for carriers to work with new challenges, as proven by the emergence of alternative capital.

“Insurance-linked security deals are issued by reinsurers as well now. Some 50 percent is issued by reinsurers, so traditional companies don’t lose. We use it,” he said.

“Who could really come in and replace reinsurers?”

Kessler continued that technology should not be considered a disruptor for the industry.

“We use data and we use technology in claims handling. We introduce new tech and to better what we do,” he said. “This is not contestability, but instead productivity.”

Kessler added that he did not believe that the reinsurance industry would see a lot of M&A in the short term, particularly among Tier 1 reinsurers, stating: “I really don’t believe we are going to be in an era of consolidation.”

Run-off business set to boom as soft market squeezes

Legacy carriers expect to see bumper volumes of run-off business come to market as insurers come under pressure from a combination of squeezed returns, soft market conditions and low interest rates.

At the launch of PwC’s annual run-off survey at the Monte Carlo Rendez-Vous on Monday, panellists said they expected run-off to become a more mainstream way for live carriers to manage their capital, particularly if low interest rates prevail.

“I think in terms of its significance as a capital instrument I would like to see [run-off] up there with equity and debt, and compare favourably alongside those two,” said David Scasbrook, head of Swiss Re’s retrospective solutions team.

“If interest rates are going to be low, people will use this as an instrument more and more, and it will become rather mainstream.”

PwC’s 10th survey on the sector found the size of the European run-off market remained steady on the previous year at EUR247bn ($277mn).

According to the survey, 77 percent of respondents said it was likely they or their clients would engage in restructuring or exit activity in the next three years.

Geraldine Quirk, a partner at law firm Berwin Leighton Paisner, said she expected continental Europe to catch up with the UK in using legacy solutions as a capital management tool over the next decade.

Around 81 percent of those surveyed by PwC believed there would be more than 10 disposals in Europe over the next two years, while 21 percent thought there would be more than 30 transactions.

Eastern Europe also now features in the top four European territories expected to produce run-off disposals.

As pressure on return on equity mounts, carriers may look to exit underperforming lines, which will also result in new blocks of business being brought to market, Scasbrook added.

Meanwhile, the current trend in the live market to delegate underwriting to the likes of managing general agents and broker-led facilities is also expected to drive run-off volumes.

“If you look at the track record of the programme business there has always been run-off associated with it,” Scasbrook commented.

“At some point the cycle will change and people will say we no longer want to deploy capacity through programmes. Inherently you end up with a run-off issue.”

David Schieldrop, global co-head of insurance at Barclays, added: “In today’s market with rates where they are, primary carriers are also perfectly capable of under-pricing themselves and creating liabilities which will become future underperforming blocks of business.”

Legacy carriers are also having to fight harder than ever to win bidding wars for legacy books.

“Pricing has definitely moved in favour of the seller over the last 10 years,” said Nick Steer, CEO of Compre. “Pricing is tighter than ever.”
The number of years of industry leadership we bring to the table.

In effective partnerships, expertise matters. Our underwriting is based on a deep understanding of your business, and our client relationships are long-term and collaborative. For over 20 years, our goal has been to provide world-class service backed by experience, financial strength and a commitment to pay claims quickly. Whatever challenges you face, our experienced team is here to help.
Reinsurers approaching reserve crunch: JLT

Reinsurers are facing something of a crisis as carriers continue to release reserves to counteract the impact of low pricing and boost profits, according to JLT.

“The sector is once again likely in a danger phase in which reserves are being released faster than accident year experience would dictate,” the broker said in a report ‘Enough in Reserve?’ launched at the Monte Carlo Rendez-Vous on Monday.

The situation is eerily similar to the comparable phase of 1998 to 2000, said the study, which analysed calendar year reserve development since 1998 for the top 30 global reinsurance companies.

“Analysis shows that the reserving cycle has reached an inflection point and the pressures are likely to intensify in the current market environment given the historical relationship between falling prices and reserve deficiencies,” said JLT global CEO Mike Reynolds.

“Indeed, there have been some notable instances of reserve strengthening in recent quarters.”

He said reinsurance had never been a better deal and was the cheapest form of capital around at the moment.

JLT’s global head of analytics David Flandro picked up the theme, noting that reinsurance pricing was at or near period lows in many medium and long-tail lines.

“JLT executives agreed a confluence of deficient reserves, a rise in interest rates and a significant catastrophe loss would be needed to bring about a hard market.”

Flandro said overcapacity in the market meant “even a $10bn loss is not going to move the dial that much”.

A crisis would be mitigated by better information exchanges between parties than in the past.

Hochburg also noted that a hard market could “do a lot of harm in the long run, as companies learn to do without and don’t come back”.

On the outlook of rates for the next year, Flandro predicted “a softening of the softening”.

“Rates could bump along the bottom for quite a while,” he said.

If we do have a turn it’s going to be great for cat bonds. There will be a lot more cat bonds, especially private placements, as they are easy to write.”

Reinsurance relevance diminishing for large cedants: Slaughter

Liberty Mutual Group’s director of global reinsurance strategy James Slaughter has predicted reinsurance will diminish in importance for large cedants.

Speaking at S&P Global’s roundtable at the Monte Carlo Rendez-Vous, Slaughter said life will become more challenging for reinsurers as larger cedants continue to grow and mid-cap companies acquire scale through M&A.

“What will happen is the reinsurance industry will become less relevant to large cedants and much more relevant to the smaller niche and regional players,” he commented.

However, despite the negative outlook, delegates struck a positive tone for the future of reinsurance, with XL Catlin London CEO Jonathan Gale proclaiming that the glory days of the industry are far from over.

The executive highlighted opportunities for growth in emerging insurance markets where penetration levels are currently low, and new lines of business – such as pollution or nuclear coverage – as cause for optimism.

He said recent losses in Italy and Asia had showed the demand for coverage existed, and that the industry should concentrate on growing into such areas as it seeks to rebalance supply and demand.

“It is not a question of supply – we have got the supply as we have seen in North America, Australia and Europe, but even there, there is only a 50 percent take-up of insurance,” he said.

“Outside of that it is 5 percent and maybe less than 1 percent. I think the reinsurance industry needs to work with the brokers to develop demand and new counterparties.”

JP Morgan equity analyst Michael Huttner echoed Gale’s optimism, saying reinsurers should be buoyed by the slow climb of claims activity, despite lower rates.

He added that the sector remained attractive to investors, as it was relatively uncorrelated with broader risks such as those facing life carriers.

Huttner quipped: “Reinsurers may look at themselves in the mirror and think ‘you are not as pretty as you were yesterday’ – well, you are still prettier than anything else out there.”

Both Aon Securities CEO Paul Schultz and Slaughter criticised the industry’s reliance on models in underwriting, as it meant that every company operated on the basis of the same data-reliant premises.

Slaughter said: “The problem is [the carriers] have a common view of risk, and the tragedy of the common is… that if we all make decision off the same data set and same model then we make the decision, and that isn’t a market.

“The industry has absolutely got to go out and solve those problems by creating those connections and improving the education, taking that in and improving their decision framework and making it broader.”
SCOR LAUNCHES ITS NEW STRATEGIC PLAN

Thanks to its accelerated development in Life and P&C reinsurance, SCOR now belongs to the top tier of global reinsurers. The Group’s premium income will reach around EUR 13.7 billion in 2016, an increase of 34% since 2013. Shareholders’ equity reached EUR 6.3 billion at 30 June 2016, up 33% over the strategic plan, after the distribution of EUR 781 million in dividends. SCOR’s development has focused on the twofold objectives of profitability and solvency. All the targets of the “Optimal Dynamics” plan, which has come to an end, have been achieved. With the upgrade of its rating in 2015, SCOR is now rated AA−(1). Plan after plan, the SCOR group demonstrates its ability to find solutions to all the challenges posed by a difficult and shifting economic and financial environment. SCOR absorbs loss event shocks thanks to its active, state-of-the-art risk management policy. Today, SCOR launches its new three-year strategic plan, “Vision In Action,” which is fully aligned with “Optimal Dynamics.”

Over the next three years, SCOR will pursue its dynamic combination of growth, profitability and solvency with ambition and determination, serving its clients and benefitting its shareholders.

2016–2019 TARGETS

<table>
<thead>
<tr>
<th>HIGH RETURN ON EQUITY</th>
<th>OPTIMAL SOLVENCY RATIO</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROE ≥ 800 basis points above the five-year risk-free rate over the cycle(2)</td>
<td>Between 185% and 220% of the SCR(3)</td>
</tr>
</tbody>
</table>

(1) Standard & Poor’s and Fitch Ratings. (2) Based on a 5-year rolling average of 5-year risk-free rates. (3) Solvency Capital Requirement.
WHERE WE’VE BEEN, SHAPES WHERE WE’RE GOING

With origins dating back more than a century, OdysseyRe has proven it can adapt to changing landscapes, be attentive to clients’ needs and remain financially fit for the future. It’s been 20 years since we became a Fairfax Company and we’re as excited today by the promise of new roads yet to be traveled as we were at the start of our journey.

odysseyre.com
Qatar Re: Profitable growth in trying markets

Within just three years of its strategic repositioning, Qatar Re has developed into a global top 35 reinsurer. This expansion was achieved at sound profitability – defying inexorably eroding rates and margins in the global reinsurance space coupled with increased volatility in the global economic and political environment. Qatar Re’s gross written premiums more than doubled to $1.16bn in 2015. We took advantage of specific project-based opportunities. Net profit for 2015 rose by 57 percent to $25mn, while Qatar Re’s combined ratio improved from 108 percent to 94 percent. This is a strong performance given the fact that the firm’s still-young portfolio did not enjoy any tailwinds from positive prior-year reserve developments.

In the first half of 2016 Qatar Re remained firmly on track to grow both its top and bottom line. Year-on-year, gross premiums written have increased by 41 percent to $654mn, from $464mn in the first half of 2015. Fuelled by the strength of our long-term client and broker relationships as well as enhanced recognition as a Bermuda Class 4 (re)insurer, Qatar Re’s portfolio continued to expand in the first half. The first half net combined ratio improved to 96 percent, compared with 98 percent in the same period of last year, despite average global catastrophe activity in the second quarter.

We have been advantaged by our still young and legacy-free operation, which has enabled us to maintain a strong focus. Our team has shaped the strategy mix and operating model around a series of value drivers that Qatar Re believes make a truly modern reinsurer. These are: proximity to clients and brokers, a firm commitment to excellent financial security, the most advanced capturing and integration of data, the development of knowledge-intense products, and the support of innovative entrepreneurship among its clients. The latter part of Qatar Re’s customer proposition will gain in importance as digitisation advances. It is likely to render irrelevant what now appears as yesterday’s internal and external barriers and disincentives for innovation and entrepreneurial behaviour in insurance. Data is the most striking example. Digitally enabled insurers no longer need to amass lots of policies to control volatility as suggested by the venerable law of large numbers. In the digital world the paradigm is shifting.

“Meeting innovators’ needs is a major opportunity for reinsurers to revive their traditional role as incubators of insurance entrepreneurs”

Thanks to technology such as telematics, the mushrooming variety of enabling big-data applications or the revolutionary concept of “machine learning”, insurers, including smaller market participants, can access unprecedented efficiencies benefitting general operations, marketing and indeed underwriting. New insurance entrepreneurs have the chance of making disruptive visions happen, contributing to what economist Joseph Schumpeter named “creative destruction”. These individuals epitomise the “non-replicative” version of entrepreneurship which nurtures both additional demand and supply in insurance. Meeting their needs is a major opportunity for reinsurers to revive their traditional role as incubators of insurance entrepreneurs, a role which may have been neglected recently in light of the industry’s focus on – or even obsession with – the supply side of the business.

Small and mid-sized reinsurers such as Qatar Re are well positioned to capture this potential: We enjoy natural advantages in terms of agility, speed and accessibility. These qualities matter greatly to aspiring insurance entrepreneurs.

These external dynamics in combination with Qatar Re’s own strengths make us believe that our franchise, supported by clients and in-house talent, will continue to grow. For the near future we will continue to focus on deepening our current book of business. We will further enhance our internal processes across the firm’s global operating platform and broaden our geographical footprint through the establishment of a branch in Singapore. Qatar Re’s financial results testify to its robust positioning in an environment of continued economic volatility and reinsurance market softness, exacerbated by rising global catastrophe losses. Our relative resilience reflects the increasing depth and diversification of the company’s portfolio.

The firm’s franchise continues to grow on the back of its status as a Bermuda Class 4 (re)insurer and distinct strengths such as a class intimacy and a particular focus on insurance entrepreneurs. These capabilities enable us to expand our book of business without tracking the market. Having said this, with global reinsurance trading conditions expected to remain challenging, niches of profitable growth will be harder to come by and to exploit.
Talk to a broker today, and two main topics of conversation arise: the cost of doing business, and the impact of broker facilities on the London and broader global markets.

At a time when the London market in particular is coming under scrutiny for its enlarged cost, questions are being asked about whether its high expense ratio is worth it.

Paddy Jago, chairman for Willis Re North America, remained bullish, saying: “There is still a march towards the Lloyd’s franchise. People are looking to expand their reach and those that are not already in Lloyd’s continue to see it as an essential part of a global platform.

“The Lloyd’s market is probably as strong as it has ever been and the attraction of the London market, Lloyd’s in particular, means that the expense is worth it.”

Carriers’ responses were more nuanced, however. Alastair Blundell, head of broker distribution at Tokio Marine Kiln (TMK), for example, said much depended on the class of business.

“With the current market conditions, everyone is looking at London business more closely and working out where efficiencies can be made, for example with online broker platforms and the introduction of facilities.”

Fundamentally though, Blundell believed London was essential for complex risks and that this would continue, regardless of the high expense ratio.

Others were less confident of London’s ability to retain its crown, given the cost of doing business there. Brian Young, president and CEO of OdysseyRe, was among those who felt that London’s expense ratio hovering near 40 percent could cause problems in future.

“Many have openly questioned whether facilities can survive a market loss, and whether they have enough safeguards in place to prevent them becoming pay-to-play exercises.”

“London is at a distinct disadvantage to its competitors that operate with a 7.5 percent to 10 percent expense edge. This expense differential is not sustainable long-term in a global marketplace where everyone is competing for the same business,” he said.

When asked how much of the industry’s high expense ratio was within its control, most agreed that it was a challenging problem but that brokers broadly held the reins.

In their efforts to grow revenue, many are seeking to access new lines of business and new distribution channels. These projects are expensive to execute and will add to the combined ratio.

Brokers are also looking to increase their returns by providing greater value within the distribution chain – it’s up to reinsurers to determine if such increased costs actually provide the value they need.

“Every cost item has an impact on the returns of the entity ultimately taking the risk. Direct costs are naturally within the firm’s own control, although it must ensure that in cutting costs it does not compromise in underwriting quality and other strategic deliverables,” noted Luca Albertini, CEO of Leadenhall Capital Partners.

Markus Eugster, CEO and global head of reinsurance at Sompo Canopius Re, said in some areas you could already see that operating costs were exceeding the risk margin, demonstrating the state of the market.

“In the end it becomes clear that the basic economics just aren’t working out. New technologies will help to make processes more efficient and less costly, yet the main focus stays on risk return,” he added.

OdysseyRe’s Young meanwhile, thought that higher acquisition costs were eroding margins. “Overhead expenses are mounting as well due to declining volumes, increasing regulatory burdens, rising payrolls, and investment in technology and business process reform;” he said.

Many cited the better use of data and analysis as a way to bring the loss ratio down.

New technologies

Don Mango, managing director of Guy Carpenter and vice chairman of enterprise analytics, explained that the industry was beginning to use new technologies that provide access to data that did not exist before the “Internet of Things”.

“For example, new inventions such as ‘connected’ homes and autonomous vehicles are now producing real-time data streams that insurers can take advantage of to dramatically reduce insured losses. Thanks to new analytics software, the advent of big data has also had a large impact on expense ratios, providing the industry with a deeper understanding of customer needs and expectations,” he added.

“The key is to manage the overall return on equity of the company using data and analytics,” opined Victor Peignet, CEO of Scor Global P&C.

“This requires state of the art systems and tools, expert teams and partnerships. This is where size (scale and scope) creates advantages.”

Leadenhall Capital Partners’ Albertini underlined that broking tools should be used in a comparison with carriers’ own analysis, and not as a substitute for it.
He continued that data and analysis can also be used to identify productive and value-adding lines of business and those that are capital-consuming, lossmaking or not productive, leading to adjustments that could help underwriting firms to better manage their loss ratios.

**Brokering facilities**

One of the major shifts in the broking market over the past few years has been the rise of facilities. But this is not a normal market, and many have openly questioned whether these facilities can survive a market loss, and whether they have enough safeguards in place to prevent them becoming pay-to-play exercises.

Scor’s Peignet said that facilities are not a homogenised group, and that for some the question of whether they can stay alive may be tested before the next big market loss. “The silver lining to a loss is that you learn some lessons, hopefully not at too great a cost. This is where having best-in-class risk management embedded in the business really matters,” he added.

OdysseyRe’s Young agreed: “Facilities will not survive if experience is poor. It may take more than one loss, or a series of losses, but eventually underwriters will re-underwrite, re-structure or reprice the business.”

On the safeguards issue, Mike Krefta, CUO at Hiscox Re, opined strongly: “It is essential to avoid pay-to-play, either explicit or de facto, as it could seriously impact the basis of trust in the industry between the three key players: client, broker and risk taker. Insurance has been fortunate to avoid the pitfalls in other industries where adverse incentives have led to markedly worse outcomes for clients.”

For others, the situation is less black and white, and more like shades of grey. TMK’s Blundell said it was easy to criticise facilities for being pay-to-play exercises, but the reality was that intermediaries couldn’t afford to broker every risk in the traditional way.

Carriers want to know that they are getting services in return for facilities, and that the contracts reflect this and explain about what is being provided for the fees charged, he said. Contracts should also include language about disclosure to clients.

“We wouldn’t sign up to a facility unless we had full audit rights,” Blundell added. “When examining facilities, you have to accept that you are not paying to simply grow your book – one example is by not accepting volume-based commissions. The salient point here is that you are paying for a service and there are legal redoubts, as well as regular reviews of completed works, to ensure you receive what you pay for.”

The question about how the increased use of facilities would impact market results prompted mixed reviews. “Facilitation of the business reduces underwriting quality and actually increases cost. Giving your pen away or blindly following a leader is a flawed business approach in any market,” said OdysseyRe’s Young.

“However, in a soft market it is especially dangerous and will ultimately lead to sub-optimal performance. It’s not just a matter of ceding underwriting control; relinquishing claims control presents significant challenges too.”

“The broker is extracting additional fees and squeezing terms while the leader represents his own interests, not followers. If interests are not properly aligned it’s difficult to see how these arrangements can endure for very long.”

Willis’s Jago, meanwhile, maintained that increased facilitation would only have a negative impact if underwriting expertise was totally removed from the process.

“Ignorance can undo everything from an underwriting perspective,” he said. “However, supporting specific expertise on a line of business that you may not be skilled in yourself may prove fruitful, providing you avoid the operational cost yourself. That’s called a subscription market and it has been alive and well at Lloyd’s for over 300 years.”

Finally, we asked market participants what kind of disintermediation they expected to arise in the industry, and how they expected it to develop.

David Priebe, vice chairman of Guy Carpenter, pointed out that a significant driver of disintermediation was alternative capital.

“The intermediary is both best positioned to ensure that buyers have access to all forms of capital at the best terms and conditions, and that capital suppliers have the most efficient channel to access the market,” he continued.

“When alternative capital enters the market, an open exchange is created that may be based only on price and not the buyer’s long-term best interests. Intermediaries can turn this dynamic into opportunity by proactively building and managing these exchanges within a buyer-centric framework.”

Leadenhall’s Albertini continued in a similar vein, noting that over time risk money has come closer to the risk, with capital market players de facto replacing the insurer or the reinsurer.

“In some cases it is welcome and cost-efficient, in others it can increase the risk by eliminating layers of retention, and in some cases the cost efficiencies are not entirely or materially for the account of the investor,” he said.

Others said that technology would become the biggest disruptor. Hiscox Re’s Krefta referenced how traditional broking firms in capital markets had developed into technology providers, adding that the market was at stage one in that process.

“The question is whether the industry is prepared to disrupt itself or wait for an external force to do so?” he said.
Expense ratios have risen at a number of global reinsurers over the past year. What is causing this?

Victor Peignet, CEO of Scor Global P&C: The denominator. The costs of doing business have been on the rise but more importantly, as markets softened, cycle management has prevailed over business development. A focus on the expense ratio carries the risk of pushing (re)insurers into missing out on good business opportunities, or writing risky or below-average business (which is ultimately foolish because it will come back in the loss ratio).

Waleed Jabsheh, president at IGI: The challenge in this market is the value and return that book brings to you. A book of business today is worth considerably less and generates a markedly lower amount of premium than it did a couple of years ago as a result of reduced rates during this period. However, this same portfolio will still require relatively the same amount of resource to manage and service, unless companies are willing to jeopardise their service standards in return for lower costs.

Brian Young, president and CEO of OdysseyRe: Lack of growth, higher payroll costs and investments in technology are putting pressure on overhead expense ratios. At the same time acquisition costs, especially for pro-rata business, are at their highest levels in many years.

A typical US casualty pro-rata treaty would have had a ceding commission in the mid-30s.

Paddy Jago, chairman of Willis Re North America: As rates and revenues drop expense ratios inevitably increase. In the search for increased opportunity, the investment in new underwriting platforms and new geographies coupled with the increased cost associated with strengthened regulatory and governance framework, let alone increased expenditure on hazard modelling, is all taking its toll.

Markus Eugster, CEO and global head of reinsurance at Sompo Canopius Re: The search for profitable business on a global basis has triggered substantial investments. Unless you opt for a light footprint approach, these investments don’t produce the expected margins in the current market environment. While rates have been contracting for years the cost blocks have not become smaller.

Stephan Ruoff, group CEO of Tokio Millennium Re: We’ve also have seen an increase in acquisition costs, especially for proportional business. In addition, there is a significant increase in regulatory pressure with the introduction of the new frameworks such as Solvency II resulting in an inevitable increase in ratios. A final piece to the puzzle is the increased investments by companies in their operating platforms e.g. analytical capabilities, geographic reach, etc.

Loss ratios have also become a talking point in 2016 – are we in an era of permanently higher attritional ratios if cat rates remain lower?

Richard Hewitt, head of business intelligence for Emea at Guy Carpenter: Permanent may be too strong an adjective, but the prevailing market environment provides an attractive opportunity for insurers to reduce net retentions as reinsurers try to put excess capacity to work. Consequently, higher attritional losses are likely to be a feature of reinsurers’ finances for the foreseeable future.

Mike Krefta, CUO at Hiscox Re: For any prudent underwriter the game should already be over. When pricing individual risks there is no load for average reserve releases (rightly), so why is this done at a portfolio level?

Jago: If you have identical attritional losses from one year to the next and cut your rates by 5 percent, your attritional loss ratio will go up by a calculable figure. If in the third year you do the same again, but this time broaden the terms and conditions, the same thing will happen. However, you will not be able to calculate by how much your attritional loss ratio will increase.

Has the push from some reinsurers into primary underwriting been worth the expense?

Peignet: We’ll see. Scor has always been mindful of not being in direct competition with its clients and doesn’t intend to change this stance. For more than 40 years, Scor has had a large corporate risk unit which writes nearly $800mn of premium, and this unit has

CONTINUED ON PAGE 19
EXPERTISE
YOU CAN RELY ON
BIG QUESTION: M&A

BIG QUESTION: COMBINED RATIOS

Our team of experts combine an intelligent and innovative approach to underwriting with in-depth local knowledge to deliver exceptional service for our clients.

Find out more at aspen-re.com
been a strong profit contributor. It would be very hard to recreate such a business in recent market conditions.

Jago: It has always amazed me that reinsurers cannot succeed in an arena that they are meant to know a lot about, then decide there must be a better opportunity in an area they haven’t got a clue about. Primary underwriting is not a diversification plan and has additional distribution challenges as well. It still requires expertise and that expertise is hard to find. Time will tell whether it has been worth it.

Young: The push into primary insurance has certainly been beneficial to our organisation. OdysseyRe’s insurance operations, operating under the banners of Hudson (US) and Newline (international), have performed extremely well over the last decade – last year the combined ratio of our insurance operations was 90.2 percent.

However, any reinsurer thinking it can step into insurance and write a tonne of profitable business quickly is in for a rude awakening. Insurance is far more resource-intensive and profits come much more slowly.

2016 has also seen a noticeable reduction in reserve releases. How much longer can the market rely on them to prop up the combined ratio? Or is that game already over?

Eugster: Reinsurance is about diversifying risks over time, yet the challenge is to walk away from business when it doesn’t pay for the risk anymore. The industry is struggling with this simple rule and reserve releases are not the solution to it.

Hewitt: Most of the favourable loss reserve development has been on short-tail reserves – with the noted decline in cat losses in recent years, there is a lower likelihood of excess reserves. There is more of a question about the viability of longer-tail reserves, where there have been negative developments in 2015 and 2016.

Peignet: We released reserves only twice since 2013, both times in circumstances of heavy nat cat losses and for very limited amounts relative to the stock of reserves and the losses sustained.

Jabsheh: With current market conditions as they are, reserve releases are expected. However, concerns are being voiced by many including the major rating agencies of the adequacy of the market’s current reserves following several tranches of releases. The latest to do so was the Prudential Regulatory Authority – which included Lloyd’s reserve strength. There is a limit as to how much reserves can be released and signs indicate that we are approaching that limit.

Mike Reynolds, global CEO at JLT Re: Large amounts of reserve releases have bolstered earnings in recent years. But something now seems to be changing. Where accident years 2003 through to 2007 were, in aggregate, redundant in longer-tailed business lines, the experience since accident year 2008 has been more varied. Carriers are now likely to have released most of the redundant reserves they built up between 2003 and 2007 and it seems the market could be moving towards a period of deficiencies.

Kurt Karl, managing director and head of Swiss Re’s Economic Research and Consulting: Our expectation is that this is the transition year and next year will see adverse development, but this outlook is not certain. Wages and inflation in the US are rising modestly, and in the UK and Germany, and this will have an impact on casualty claims. However, the uptick in inflation is not strong enough to be certain that the reserve releases are over.

What is your expectation for global reinsurance combined ratios for the year ahead?

Young: The current accident year for the business, assuming normal cat activity, is running at or near a 100 percent combined ratio today. So if the market continues to soften at 1 January, it wouldn’t surprise me if underwriting results go red in the second half of 2017.

Jabsheh: There have been several catastrophe losses in the first six months of the year, albeit individually small for today’s standards. The sum of these losses, however, are above the 15-year average for the same period and the highest since 2011. Furthermore, we are now heading into the Atlantic windstorm season. Given all of the aforementioned, combined ratios are sure to be under immense pressure.

David Flandro, global head of analytics at JLT Re: Much depends on loss activity through the remainder of the year. A series of catastrophes in the second quarter of this year in the US (severe weather in Texas), Japan (Kumamoto earthquakes), Ecuador (Pacific coast earthquake) and Canada (Alberta wildfires) meant several reinsurers exceeded their quarterly budgets for the first time since Q1 2013. If this trend continues for the remainder of the year, reinsurers’ combined ratios could end up near 100 percent. Either way, we’re still likely to see deteriorating combined ratios compared to last year as rate declines continue and reserve releases slow.
The interview: Brian Young, President and CEO, OdysseyRe

2016 is a big year for OdysseyRe, marking its 20th year as a Fairfax company. What do you consider to have been the essential tricks of the trade to keep pace with your peers over that period? It wasn’t easy when we started. Between 1996 and 2001 was probably the most challenging time, where many companies didn’t survive or were severely injured.

The key to our success was to be disciplined – knowing when to put your pen down and when to put your foot on the gas pedal.

Diversification is also critical, but it doesn’t work without discipline. Having a well-defined risk appetite is also important: knowing what you like, how to price it and when to walk away. In the chase for growth some people have expanded into areas they do not know and that can be dangerous. You need to know your limitations.

What have been the biggest changes over the past 20 years in terms of how client relationships, broker relationships and service offerings have developed?

A lot has changed and a lot is the same. Relationships are still very important but perhaps less relevant today. Technology has had a big impact. Pricing and modelling tools are more robust than ever, while electronic platforms mean that business is delivered very differently – there is less human interaction.

In addition, the decision process for purchasing reinsurance is now handled by boards and committees, moving up the corporate chain.

Service offerings are critical but price remains one of the most important factors. As a reinsurer you need to bring your expertise to the table – underwriting, claims, actuarial. This is especially important to smaller clients that don’t have the expertise in-house.

The other thing is that brokers’ influence today is the greatest it’s ever been, especially on the insurance side – they control the distribution, and facilitation is a prime example of that.

Do you need to have scale to be able to survive in this market? Or is there still a place for a niche, smaller specialist?

In 1996, we had $300m in capital and at that size we would have no seat at the table today. Maybe you can get a seat at $3bn. So in a sense, scale is important, and bigger is better. It’s a global stage and you need size and scale to compete. You need the capacity and the expertise to influence terms. Size does matter.

Having said that, it’s a big world out there and there’s a role for all different types of business. There is room for Specialty shops – both in terms of product and territory – and they can be successful when discipline is exercised.

We saw some major personnel changes at the top of OdysseyRe at the turn of last year. What has been the upshot of all these changes, and are there more to come?

These were all planned succession moves. Lucien Pietropoli has relocated to Singapore and become CEO for the Asia Pacific region, passing the reins to Isabelle Dubots-Lafitte, who has taken over as CEO for Europe, Middle East and Africa (EMEA). Gaël Le Païh has become the chief underwriting officer for Paris, and André-François Rocque is taking up the role of chief underwriting officer for London.

Promoting from within is very important to us, we value our culture and want to preserve it. There’s also a generational shift. In EMEA we’re hiring lots of people, strengthening our bench. Some of our workforce is nearing retirement and we want to transition for the future.

We’ve seen a few carriers make a push for diversifying their underwriting lines, with some reinsurers moving into insurance, and others expanding their global footprint – what are OdysseyRe’s plans?

We currently have 33 business units, 18 of which are reinsurance and 15 are insurance. Insurance is 45 percent of our global portfolio. Given the competitive conditions in reinsurance, it’s likely that insurance will present a greater opportunity for growth.

Insurance provides us with access to new distribution channels and greater control over our destiny, whereas reinsurance can sometimes seem like rented capital – a lease agreement for 12 months, so there’s less control and less influence.

Reinsurance is our core, but insurance opened a lot of doors for us. We’re excited about the business potential for our insurance operations, especially in the US.

Last year saw OdysseyRe establish a representative office in Beijing. Newline Syndicate 1218 also joined Lloyd’s platform in Shanghai. Can you talk us through the rationale for that, and your take on the state of the market in China?

China is a large and complex market and we think it is important to have a physical presence there. It’s a vast, geographically diverse market with in excess of $125bn of non-life premium, and we expect it to grow further in the coming years. However, there is currently no shortage of capacity and terms are competitive, so we need to be patient.

The first step was setting up a representative office, and we’re confident we will expand at the right time. It will depend on market dynamics, but it’s our third biggest market; it makes sense to grow our physical presence there.

Turning to the alternative capital side, how much more market share do you expect the ILS market can win within the property cat market?

I don’t see it making further inroads. Speed matters today, and it still takes a long time to put together a cat bond. Placing a treaty is easier and quicker. ILS fills in the gaps rather than taking business away. The biggest impact of ILS was that the traditional reinsurers woke up to the fact they needed to protect their market share.
Make reinsurance great again!
—
Collateralised Re Ltd.

Collateralised Re Ltd. provides cedents with fully collateralised reinsurance protection and is sponsored by LGT ILS Partners Ltd.
The name that the biggest names depend upon.

**Total Assets:** US $12 billion  
**Net Worth:** US $5.7 billion  
(including US $3.5 billion on fair value change account)

**Global Ranking (2015):**  
14th among Global Reinsurers (A M Best)  
18th among Global Reinsurers (S & P)

**Ratings:**  
**Financial Strength:** A- (Excellent) A M Best Company  
**Claims Paying Ability:** “AAA(In)” by CARE

Website: www.gicofindia.in  
Contact us at info@gicofindia.com

General Insurance Corporation of India  
Global Reinsurance Solutions
TigerEye: build vs. buy

Managing and deploying capital more effectively than the rest of the market is a key characteristic of successful (re)insurance companies. To accomplish this goal, carriers need highly specialised analytical tools.

With the need for advanced tools a given, companies are faced with the question of whether to develop the technology themselves, or whether to buy what is commercially available. Naturally, there are pros and cons for each option. The high cost, uncertainty and complexity of building such tools internally can be offset by resultant benefits such as unique market insights, speed to market and greater control.

But being at the “bleeding edge” of technology suits only a few. Most insurers prefer to license proven technologies, which carry lower risk and lower maintenance overheads, freeing them up to focus on their core competencies of underwriting, client acquisition and claims management.

Over the past decade, for example, catastrophe models developed by the main vendors have generally been superior to anything a (re)insurance company could build on its own. Indeed, these readymade models have become the industry standard for assessing catastrophic exposure to wind, earthquake and flood for individual locations and/or portfolios.

But even the most sophisticated of these commercially available catastrophe models have significant limitations when it comes to using their output for tasks like combining portfolios across multiple cedants, modelling complex treaties and creating a robust single system of record. The inability to analyse treaties with complex structures such as per-risk excess, top-and-drop or cascading also limits the utility of catastrophe models for many of the more innovative reinsurance solutions developed by leading-edge brokers like TigerRisk.

Similarly, global insurers, often with complex portfolios, are increasingly looking for tools to more dynamically manage their own capital. They expect to be able to collaborate closely with their broker in structuring their outward reinsurance programmes as well as optimising their own portfolios. As a consequence, most (re)insurers have had little choice but to build their own internal tools to analyse the output of commercial catastrophe models in order to manage their capital, or have relied on third party services.

The decision to build has historically been driven by necessity, not choice. Moreover, as regulators and rating agencies have become much more demanding about how capital should be managed, the costs of building and maintaining in-house systems are increasing.

But now there is another option. Recently, highly respected companies – including some of those known for building their own in-house tools – have turned to a roll-up platform developed by TigerRisk.

TigerEye® is an easy-to-use analytical tool which enables users – both insurers and reinsurers – to take full advantage of catastrophe modelling output to make business decisions within minutes (in some cases seconds) of loading data. TigerEye was first built as an in-house product to enable TigerRisk’s brokers to model the treaties they were creating for our clients. Once the clients saw what the tool could do, they wanted it for themselves.

Being model agnostic, TigerEye can import data like event loss tables, year loss tables, actuarial distributions and then analyse reinsurance programmes to view the marginal impact on in-force portfolios. Aggregate limits/deductibles, cascading layers, insuring relationships and second/third-event covers are all easily structured and analysed for pricing, or for portfolio management and optimisation.

And TigerEye is fast; it can roll up 1,000 treaties in less than an hour.

Not surprisingly, TigerEye has quickly become the market leader. It has been adopted by two of the world’s largest insurers. Many reinsurers, which value analytically driven decision making at the point of underwriting, rate TigerEye highly, with more than 10 percent of Lloyd’s property treaty stamp capacity now being deployed by syndicates using the platform.

Those companies that had already developed their own portfolio roll-up systems are re-evaluating whether there are better options. Many are seriously considering retiring their in-house systems. A sophisticated, yet easy-to-use hosted solution with virtually no maintenance requirements, TigerEye offers a compelling alternative.

TigerRisk Capital Markets & Advisory establishes London presence

TigerRisk has hired Leo Beckham, formerly of Willis, to establish a London presence for its capital markets and advisory business. From 2 November, Beckham will become managing director of the new TigerRisk Capital Markets & Advisory team in London. He will report to Tony Ursano, president of TigerRisk and CEO of TigerRisk Capital Markets & Advisory.

In his new role, Beckham will be responsible for helping to build TigerRisk’s capital markets and advisory business in the UK and Europe.

“Leo’s investment banking, insurance, reinsurance and corporate development experience is perfectly suited to help us as we continue to build the industry’s leading strategic, capital and reinsurance adviser,” said Ursano.

“Leo’s extensive involvement in the Lloyd’s, UK and European markets will be invaluable as we continue to build out our global presence.”

While at Willis Capital Markets & Advisory, Beckham was involved in a number of high-profile insurance industry transactions. He began his career as a chartered accountant specialising in insurance at Deloitte. He transitioned into investment banking at Benfield Advisory and later at Keefe, Bruyette & Woods.

Vladimir Kostadinov is an associate at TigerRisk and is responsible for TigerEye and the broker’s broader suite of client development and support.

Matthew Grant is executive director of technology consultancy Abernite.
What we see is what you get.

The more detail you can see in the things before you, the more successful your actions are likely to be. Lack of data is seldom an issue with transactions – it is how you look at it, how you connect the dots, and whether you are able to anticipate the outcome of the various options in front of you, that makes all the difference. This is why the DARAG team is especially focussed and well versed in looking at facts and figures from several different angles, and in identifying opportunities and risks, both short and long term. Because true finality starts with a vision.
Axis targets growth but ‘no gun to head’

Axis Capital is heading to Monte Carlo with $600mn of additional capital to put to work with Harrington Re, its joint venture with Blackstone.

It might seem that the prospect of growing by 10-20 percent in such a challenging market could give Axis Re CEO Jay Nichols some heartburn over coffee meetings at the Café de Paris, but the veteran reinsurance executive seemed relaxed about the goal.

“We’re on a mission of targeted growth,” he said. “We’re being very granular about it – targeting the customers we think we’re under-represented with.”

Axis Re had enough business to feed Harrington Re if it didn’t find growth opportunities, he added.

“It’s not like we have a gun to our head to grow.”

There is plenty of headroom to cede business due to Harrington’s low underwriting leverage, he explained. As with other total return reinsurance vehicles, the asset risk it is taking places an enforced limit on the scope of its underwriting ambitions, with a targeted 30 percent ratio of premium to capital.

Most commentary on the evolution of total return reinsurance vehicles has focused on the structural shift from standalone new start-ups that typified the early innovators such as Greenlight Re and Third Point Re, to the current wave of joint ventures such as Harrington Re that are essentially captive reinsurers for their underwriting parent.

The captive model has taken hold as a solution to the problems of sourcing underwriting business as a start-up in an already over-capitalised market, but in a sense it merely defers this obstacle. In order to achieve a public listing and create liquidity for the initial investors, these vehicles will need to build their own franchise.

Nichols said that the plan is to build Harrington up from reinsuring Axis to writing companion lines and over time, to potentially work to create franchise businesses in lines where Axis does not participate and where the relationship between Axis and Blackstone creates a competitive advantage.

“That model creates a very long-term sustainable franchise,” he said. Instead of looking at the structural evolution, Nichols suggested that the major shift through the different generations of these vehicles lies in their business profile. He identified a progression from “gen 1” carriers such as Axis that chase very little investment risk, to the “gen 2” companies such as Third Point that take a lot of asset risk, to “gen 3” companies where the aim is to better match and balance asset and liability risk.

The data that I’ve got suggests there’s a little more rationality in the market,” he said, adding that while pricing was not expected to increase he anticipated it would firm up.

“Although the profile of the January renewals is more geared towards European business, the Axis Re CEO thought the outcome of negotiations in the US-dominated mid-year renewals held promise for January 2017.

“The data that I’ve got suggests there’s a little more rationality in the market,” he said, adding that while pricing was not expected to increase he anticipated it would firm up.

Although Nichols thinks the reinsurance market has seen an end of the “sine wave” pricing cycle of longer upturns and downturns, he argued that the industry will still experience short “micro-cycles” in the future.

And despite reinsurance market supply outweighing demand, Nichols said he still believed there were opportunities for underwriters to pick and choose business.

“As long as that business is inefficient, there’s enough business for us to choose.”

Era of the micro-cycle

Looking ahead to the 1 January renewals, Nichols said he believed the market was getting closer to an equilibrium point. Although the profile of the January renewals is more geared towards European business, the Axis Re CEO thought the outcome of negotiations in the US-dominated mid-year renewals held promise for January 2017.

“Although the profile of the January renewals is more geared towards European business, the Axis Re CEO thought the outcome of negotiations in the US-dominated mid-year renewals held promise for January 2017.

Although Nichols thinks the reinsurance market has seen an end of the “sine wave” pricing cycle of longer upturns and downturns, he argued that the industry will still experience short “micro-cycles” in the future.

And despite reinsurance market supply outweighing demand, Nichols said he still believed there were opportunities for underwriters to pick and choose business.

“As long as that business is inefficient, there’s enough business for us to choose.”

JVs not M&A

Indeed, Nichols sees the proliferation of joint ventures in the hedge fund reinsurance niche as an example of where future development in the broader reinsurance sector might lie.

Forming joint ventures and managing third-party capital is his background – before Axis, Nichols was responsible for establishing the RenaissanceRe Ventures division – and he sees these as a more profitable way of the industry achieving consolidation than through M&A.

Complicated amalgamations or de novo start-ups risk “fragmenting the skillset” of underwriters, he believes.

The executive pointed to the agreement between TransRe and Gen Re, where the Alleghany subsidiary agreed to write business on behalf of the Berkshire Hathaway unit, as an example.

“Over time there needs to be consolidation,” Nichols said. But he added that with valuation challenges to make M&A deals work, it could be more likely that different industry participants simply work together more often to access new areas of expertise.

During Nichols’ time at Axis the carrier has lifted its use of third-party capital and reinsurance. It now cedes around 25 percent of its cat book, up from virtually zero in 2012, with partnerships in place to share agricultural and trade credit risk as well.

However, the carrier has not formed standalone sidecars and discloses very little on its financial statements about its fee income from such business.

Nichols said this has been a conscious decision. “I’m not a headline guy.”

Jay Nichols
CEO, Axis Re
It’s a jungle out there.

You need someone **FEROCIOUSLY** Committed to your **SUCCESS**

The New Breed
**IN RISK MANAGEMENT & CAPITAL SOLUTIONS**

www.tigerrisk.com
The interview: Bertrand Labilloy

Can you explain the rationale of spinning off your open market reinsurance operations?
At Caisse Centrale de Réassurance (CCR) we provide reinsurance coverage against natural disasters with the guarantee of the French state, which represents two-thirds of our activity, or around EUR9000mn in premiums, but we’re also a full service reinsurer operating in the international life and non-life markets. This activity, which amounts to around EUR4000mn in premiums, is being put into a separate legal entity that will be fully owned by CCR.

The rationale for this is to improve the governance and financial transparency of the business. Thanks to a dedicated objective and resources, we hope to enhance the performance and quality of service.

Will anything fundamentally change under the new structure?
No. It has the same geographic coverage of 50-60 markets, the same lines of business, the same volume of business, the same allocated capital – more than EUR7500mn of economic capital – and the same solvency ratio of 200 percent.

It will also be based at the same physical location, with the same staff and the same underwriting discipline.

So there’s virtually no change, other than that all the open market operations will take place within a separate legal entity.

And to be clear, does the decision behind this process have anything to do with the long-running legal action from Scor, which is challenging the state guarantee provided to CCR?
It has nothing to do with that ruling. Not only because the two decisions refer to different activities, but also for a simple, timing reason: we have been engaged with the spin-off since last December, while the ruling was issued in July this year.

By the way, the state guarantee for natural catastrophe risks is not under threat at all. The French government should have notified the wording to the European Union (EU) competition authorities, that’s clear. So the French government has been requested to do so over the next 12 months.

The notification was made in late July, within a fortnight of the ruling. We’re waiting for a decision from the commissioner in September, and we are very confident about the outcome.

In terms of the French constitution and the French competition laws, the natural catastrophe system and the guarantee from the state conforms to them all according to the ruling. So we are just waiting for the decision from the EU Commission now.

What are your expectations for how the spun-off CCR book will grow over the next year?
We’re not chasing premium – we’re very comfortable to maintain our underwriting policy even if it means a slight reduction of our portfolio. We’d prefer that to having bad results. We think that the market cycle still has very low rates, and will continue to do for possibly the next two years.

We are comfortable with the size of our portfolio. The open market operations are strategically important for CCR, but we don’t need to grow desperately. We need to maintain our activity for the synergies that they provide to the public reinsurance business.

The open market operations allow us to gain intelligence and recruit professionals from the reinsurance market. This is critical for the public reinsurance business. We want to be seen as a reinsurer, rather than just being a public agency.

If you look at the past experience, on a certain number of occasions the public reinsurance business has benefited from expertise that was developed for and by the international market operations.

This was evident in 2001 after 9/11 and after the financial crisis, when there was a lack of reinsurance for credit insurance business. From time to time, the state asks CCR to put in place temporary coverage using the expertise we’ve developed for the open market operations.

What do you predict will happen to rates in the coming months?
I think this year we should reach the floor because our competitors cannot continue to reduce the level of reserving anymore. Also, carriers have benefited from low cat experience in previous years, but that hasn’t been the case for the first half of this year.

There’s no clear signals of areas where rates could increase. But if you look at the return on equity of reinsurance businesses around the world, there have been some interesting papers on that issue from financial analysts. For the time being writers of reinsurance business aren’t being paid enough for the risk anymore. That situation can’t last for more than two or three years. We’re waiting for an upturn in the cycle and in the meantime we’ll try to maintain a strong level of diversity.

What lessons have been learned from the large cat losses CCR suffered in 2011 and 2012?
The lessons that have been drawn from that experience include that CCR should be more focused in terms of its markets and business lines.
That’s why the geographical coverage has been reduced to 50 markets. It’s why we’ve also put in place some very restrictive measures in terms of cat exposure and have reinforced our control system.

Today, we could not suffer a loss from a single cat event of more than EUR150mn to EUR200mn.

How are the market conditions affecting retro rates?
We are suffering from the low rates in the reinsurance market, but at the same time we’re benefiting from low rates in the retrocession space. It’s the reason why we decided to reinforce our retro programme.
We are also using insurance-linked securities (ILS) to retrocede our risks, and will continue to do so.

ILS is a new tool that allows us to diversify our sources of retrocession, which allows us to retrocede some very specific risks. It allows us fill gaps in our programme that traditional markets are unable to cover, or at a much better price.
FRESH NEW LOOK.

SAME GLOBAL REACH.

INTERNATIONAL GENERAL INSURANCE

IGINSURE.COM
The cyber reinsurance sector is playing catch up following the recent boom in cyber insurance, but for now the rest of the market is still shouldering the biggest risks.

As things stand, should significant property damage or business interruption (BI) claims arise from a cyber-attack, the majority of losses would be absorbed by reinsurers, which have allowed cyber coverage as part of broader property or liability packages.

Standalone cyber reinsurance is still in its infancy, with many reinsurers choosing to rely on the diversification of their wider portfolios to allow for this additional risk. While there are some (re)insurance solutions available for the more systemic type of cyber exposure, they are not being broadly taken up given that cyber exclusions remain scant.

“Most syndicates are not overly concerned about their cyber exposure as when they purchase their reinsurance they generally don’t have a cyber exclusion. Hence they may feel the risk is passed on,” said Ian Newman, a partner at Capsicum Re.

“The interesting moment comes when we have a very substantial loss and the reinsurers turn around, place a cyber exclusion on everything and suddenly everyone is having to run a net portfolio.”

Geoff White, the departing cyber liability leader at Barbican, said there was ample standalone cyber capacity available for his firm’s own cyber reinsurance needs. However, for the larger risks, cedants are still left wanting.

“If you are asking if there is ample capacity for very large entities, such as utilities or nuclear companies, then the answer would be no, especially for the more BI-heavy customers,” he said. “Within Lloyd’s, there is around $500mn in capacity, which is potentially the self-insured retention a very large utility would need to have.”

The cyber market will have to see more reinsurance capacity come to the space to keep up with demand, claimed Newman.

“There is an interesting dynamic in the cyber market – there are only a small number of experts within the cyber market and they are going to struggle to meet the demand that is coming,” he said. “Clients are looking for bigger limits, the number of open market submissions coming to market is increasing and the facility business is growing very fast.”

This recent surge in demand has forced the standalone cyber market to mature. “If you went back two or three years you would see proportional reinsurance for the most part,” explained Newman. “Over the last 24 months we have seen the introduction of many other types of reinsurance, which have been designed specifically to meet the needs of the cyber reinsurance market.”

More lead markets are starting to develop, and the first retro deal is in the making, according to Newman.

“The interesting moment comes when we have a very substantial loss and the reinsurers turn around, place a cyber exclusion on everything and suddenly everyone is having to run a net portfolio.”

Ian Newman, partner, Capsicum Re

Stop-loss programmes continue to be the most common type of standalone cyber reinsurance cover, as the market looks to develop comfortable event definitions and wordings for catastrophe-type coverages. When it comes to standalone cyber cover, reinsurers have previously tended to favour sitting behind insurers, which have led the way in pricing excess covers.

“The reason we haven’t seen the development of the excess market is because the reinsurance market didn’t really understand excess pricing in cyber due to the limited information available then,” said Newman. “It made more sense just to sit alongside one of the experts as opposed to attempting to calculate excess pricing.”

Back in April, Beazley and Munich Re announced a collaboration to provide a $100mn line. While this tie-up was widely publicised, it is thought low-key insurer-reinsurer partnerships in cyber are commonplace.

Newman said he believed the market will see more reinsurance or capital sitting behind the more experienced primary markets to meet this demand.

“It allows them to write more business, which is important for the development of the market, and also allows them to invest in technology, which in turn means greater understanding of the risk,” he said.

However, existing cyber reinsurance markets are torn between offering more capacity to meet increasing demand, and monitoring the aggregation of risk on their balance sheets.

Amid stark warnings from Lloyd’s, the cyber industry is increasingly aware of “silent” cyber coverage being offered under non-cyber-specific covers.

Maya Bundt, Swiss Re’s head of cyber and digital strategy, highlighted risk aggregation as one of the top challenges for the future growth of the cyber reinsurance market.

“Right now we see two trends: cyber exposures being pushed into other lines of business, or the opposite, cyber being taken out, and actually being put on the market as real standalone covers,” she explained.

“We [at Swiss Re] are very much in favour for the standalone option for transparency reasons. If you push it into other lines, it’s not looked at with the same rigour, it’s not priced with the same rigour and you usually don’t get a premium for it that appears risk adequate.”

As things stand, reinsurers are armed with very limited claims data, and are still wrestling with finding a market consensus on pricing. This is proving yet another challenge in growing cyber capacity.

Pricing for reinsurance depends heavily on a company’s track record, portfolio make up – such as exposure to retail, financial institutions, healthcare or other highly sensitive information-driven sectors – and underwriting expertise, explained Bill Henriques, co-head of Aon Benfield’s cyber practice group.

“Proportional treaties are available with favourable ceding commissions; however, this is heavily dependent on the criteria and event exposure,” he said. “Reinsurance pricing on aggregate stop-loss treaties tends to be more competitive if the programme attaches at a perceived catastrophic attachment.”

Bundt told this publication the rapidly evolving risk landscape means it is still difficult for reinsurers to find the right price for an individual risk or a risk portfolio.

“I am sure that in 2012 everybody thought the US retailers were priced correctly, and now we know that the risk was hugely underestimated,” she said. “There are these trends in the cyber threat landscape that nobody has foreseen. However, from what I gather cyber is one of the few exposures which still has a higher premium level than other exposures presumably being subject to a soft market cycle.”
Soft market conditions fuel increased reinsurance spend

Primary carriers have increased their appetite for reinsurance given the accommodating market conditions, as the year-end 2015 and H1 2016 results highlighted cedants’ preference for reinsurance over other forms of capital.

Major reinsurers showed strong top-line growth figures in the second quarter, as they continued to write business despite bemoaning softening prices, high acquisition costs and a capital-saturated market.

Analysis from The Insurance Insider revealed that Bermudian carriers upped their reinsurance gross written premiums (GWP) meaningfully during the period, reporting double-digit rises from the same quarter last year.

Our Bermuda composite saw reinsurance GWP climb by 21 percent in the second quarter, up from the 9.5 percent year-on-year increase recorded in the prior-year period.

For example, Axis’s reinsurance arm grew by a quarter to $336.4mn, mainly due to multi-year treaties as well as pricing differences in professional lines, CFO Joseph Henry said on the carrier’s second quarter earnings call.

Nevertheless, adjusting for those items, the reinsurance top line still grew by 5 percent, he added.

Rival Bermudian Aspen expanded its reinsurance book by 27.6 percent from the prior-year period to $332.6mn, with a 54.4 percent climb in specialty reinsurance GWP as well as a 45.2 percent increase in property catastrophe reinsurance.

Meanwhile, from a buyer’s perspective, the soft reinsurance market dynamics have provided insurers with opportunities to take advantage of low prices to cede more risk at favourable terms.

GWP growth at London-listed Lloyd’s carriers rebounded in the second quarter to 7.8 percent, as the group increased their reinsurance buying to support expansion of their front-end books.

“Insurers are benefiting from greater risk transfer in high risk layers, a segment of risk where there is abundant capacity, enabling them to reduce volatility and further protect their balance sheets.”

The overall rise was driven by double-digit increases at Hiscox and Lancashire, both of which took advantage of cheaper reinsurance pricing to cover this increased exposure.

In an interview with The Insurance Insider following the publication of its Q2 results, Hiscox chairman Robert Childs said the carrier had purchased extra reinsurance to accompany the GWP growth.

In the first half of 2016, Hiscox ceded 31 percent of its GWP, up 9.5 percentage points on a year ago.

Meanwhile, Lancashire decided to bolster its reinsurance buying strategy, with its first-half cession rate reaching 35.5 percent, up 2.6 points on the previous year.

“You have to have the stomach to adopt that strategy as, obviously, the market’s declining, our income’s declining, our net earned premium is declining, so to spend the same amount of money could be described by some as counter-cyclical. But for me, I think it makes sense,” CEO Alex Maloney explained.

Novae CEO Matthew Fosh told this publication that his carrier had also purchased more reinsurance to mitigate increased US catastrophe exposure and to bed down future growth in its underlying business.

The carrier ceded 30.9 percent of its GWP to reinsurers in the first six months of 2016, up 7.4 points from the comparable period the year before.

The uptick in reinsurance buying may indicate a trend towards price-induced demand, where cedants opportunistically cede additional premiums owing to the readily available supply of cheap capacity.

The favourable economics of quota share protection have also given cedants the opportunity to lay off additional risk to reinsurers, although Lloyd’s insurers tend to use excess-of-loss cover because of the way their capital structures work.

A recent AM Best report noted that some of the continent’s largest cedants had taken advantage of soft market conditions to purchase more reinsurance protection and lock in favourable pricing and terms with multi-year deals.

The rating agency analysed the 20 largest cedants in Europe and found that year-end 2015 cessions were up 17 percent, which contrasted with the slower rate of premium growth resulted in higher cession rates.

“Europe’s biggest reinsurance buyers remain those that are focused on underwriting low-frequency, high-severity exposures,” the report said.

In absolute amounts, Lloyd’s ranked first in terms of ceded non-life premium, which
Partnership starts with a conversation.

partnerre.com
Allianz and Generali, had revamped their reinsurance strategy, the report noted, ‘...insurers are benefiting from greater risk transfer in high risk layers, a segment of risk that have historically been more expensive to reinsure. ‘Insurers are benefiting from greater risk transfer in high risk layers, a segment of risk that have historically been more expensive to reinsure. Reinsurers have responded by increasing reinsurance demand from a number of the largest global carriers, including AIG and Zurich. AIG has brought forward a series of new treaties in recent months. It said that many large cedants, such as Allianz and Generali, had revamped their reinsurance buying in recent years and opted for a more centralised strategy, managing to reduce costs and increase their reinsurance.

The rating agency’s data revealed that retention rates exceeded 90 percent for six of the top 20 cedants in 2015. Munich Re ranked first with a 95.3 percent ratio, after shedding 40 basis points from the year before.

*Cedants are taking advantage of the enhanced bargaining power they have gained from a more centralised approach to managing risk exposure, including reinsurance capital, to access broader more cost-effective programmes, using reinsurance as a cheap form of contingent capital,’ AM Best said. The Insurance Insider has also highlighted increased reinsurance demand from a number of the largest global carriers, including AIG and Zurich. AIG has brought forward a series of new treaties in recent months as it looks to address some of the challenges that have hindered its performance, resulting in calls from activist investors to break up the group.

The covers, which include a North American casualty quota share with Swiss Re and an international property treaty, have been purchased with two chief purposes in mind. By using quota share reinsurance support as capital, the insurance giant is freeing up its equity capital to return to shareholders – a move that is highly accretive given the company is trading at around 0.72x book value.

AIG is also taking advantage of soft market conditions to place proportional treaties on underperforming books that carry an override, improving its net underwriting result and easing its well-publicised expense problem. On its most recent conference call, AIG said that it had increased its use of reinsurance, ceding more than $300mn of additional P&C premiums in the second quarter.

As a result, AIG’s Q2 2016 net written premiums were down 20 percent year-on-year to $4.41bn, and could be down by as much as $3bn for full-year 2016, reflecting remediation work and further reinsurance buying. Specific issues at Zurich have also provided a fillip to income-hungry reinsurers. The insurer ran into trouble last year after taking significant net losses from the Tianjin explosions and UK floods, which called attention to its high-retention approach to reinsurance buying.

As the business sought to recover from a loss of investor confidence owing to the earnings volatility, the insurer moved to buy more quota share reinsurance cover and facultative cover to protect against another mishap. Chubb has also bought more reinsurance in the wake of its merger with Ace, laying off volatility and taking advantage of overrides.

The company entered into a new quota share for its North American personal lines business that will see it cede around $250mn a year. While the terms of Chubb’s reinsurance protection have not been disclosed, Bernstein analysts Josh Stirling and Gavin Davis said the quota share would likely come with a significant ceding commission. They suggested that this arrangement could be a source of additional income beyond analysts’ expectations in the coming quarters, as the commission income lowered Chubb’s expense ratio.
ACCREDITED SURETY AND CASUALTY COMPANY, INC

Accredited, a wholly owned subsidiary of the R&Q Group, enables authorised and non-authorised reinsurers, captives and other alternative risk markets, access to US admitted business.

- Florida-domiciled property and casualty insurer founded in 1971
- US Treasury listed
- A.M. Best rating of A- (Excellent)
- Admitted in 49 States and the District of Columbia

Licensed to write Surety and P&C business across the US.

Offers an admitted and rated solution for loss portfolio transfers.

Offering novations (providing full finality) to self-insurers and Risk Retention Groups either in run-off or looking to dispose of legacy liabilities.

Contact
Deborah Snow
President
Tel: +1 407-629-2131
Email: debbie.snow@accredited-inc.com

Todd Campbell
SVP, CUO
Tel: +1 404-345-6555
Email: todd.campbell@accredited-inc.com
EVENTS

THE INSURANCE INSIDER

2016 EVENTS

LMCC Breakfast Briefing
28 September 2016 (08:00 – 10:00)
The City of London Club, Old Broad Street, London, EC2N 1DS

Guest Speaker:
Paul Jardine, Executive Vice President & Chief Experience Officer, XL Catlin
LMCC members only

L100 Breakfast Briefing
29 September 2016 (08:00 – 10:00)
The City of London Club, Old Broad Street, London, EC2N 1DS

Guest Speaker:
Chris Moulder, Director of General Insurance, Prudential Regulation Authority
L100 members only

Trading Risk New York Rendez-Vous
4 October 2016
New York Athletic Club, New York, NY 10019
www.trading-riskrendezvous.com

Speakers include:
Scott Belden, Senior Vice President, Reinsurance, Travelers
John Forney, CFA, President & Chief Executive Officer, UPIC Insurance
Dirk Lohmann, CEO & Managing Partner, Securquero Advisors
Michael Millette, Managing Partner at Hudson Structured Capital Management
Paul Schultz, Chief Executive Officer, Aon Securities
#TradingRiskNY

For further information on attending any of the above events, please contact Lucy Jones at lucy.jones@insuranceinsider.com

The Xchanging London Market Conference
10 November 2016
Etc venues, 155 Bishopsgate, London, EC2M 3YD
www.xchanginglondonmarketconference.com/

Speakers include:
Andrew Horton, CEO, Beazley plc
Julian James, President, Allied World Europe
Shirine Khoury-Haq, Director, Operations, Lloyd’s
Sean McGovern, Chief Compliance Officer, Head of Regulatory & Government Affairs, XL Catlin
Kurt Karl, Chief Economist, Swiss Re
Malcolm Newman, CEO, Paris-London Hub, SCOR
#XLMC2016

For further information on speaking, exhibiting and sponsorship opportunities, please contact Spencer Halladey on +44 (0)20 7397 0619 or spencer@insuranceinsider.com

Jennifer Lord on +44 (0)20 7397 0619 or jennifer@insuranceinsider.com

For further information:
Abby Baker on +44 (0)20 7397 0619 or abby.baker@insuranceinsider.com

MANAGING DIRECTOR
Mark Geoghegan
mark@insuranceinsider.com

EDITOR-IN-CHIEF
Adam McLeaster
adam@insuranceinsider.com

NORTH AMERICAN EDITOR
David Bull
david@insuranceinsider.com

MANAGING NEWS EDITOR
Charlie Thomas
charlie.thomas@insuranceinsider.com

FEATURES EDITOR
Gavin Bradshaw
Gavin@insuranceinsider.com

SENIOR REPORTERS
Fiona Robertson
fiona@insuranceinsider.com
Catrin Shi
catrin@insuranceinsider.com
Dan Ascher
dan.ascher@insuranceinsider.com
Lucy Jones
lucy@insuranceinsider.com

REPORTERS
Matthew Neill
matthew.neill@insuranceinsider.com
Winfried Okocha
winfred.okocha@insuranceinsider.com
Julia Cuskina
julia.cuskina@insuranceinsider.com
Spencer Halladey
spencer@insuranceinsider.com
Rob Hughes
rob@insuranceinsider.com
Ben Bracken
ben.bracken@insuranceinsider.com
Annie Lightholder
annie@insuranceinsider.com
Georgia Macnamara
georgia.macnamara@insuranceinsider.com
Abby Baker
abby.baker@insuranceinsider.com

HEAD OF EVENTS & MARKETING
Jennifer Lord
jennifer@insuranceinsider.com

SENIOR MARKETING EXECUTIVE
Sophie Janion
sophie@insuranceinsider.com

MARKETING ASSISTANT
Beatrice Boico
beatrice.boico@insuranceinsider.com

EVENTS PRODUCER
Matthew Sime
matthew.sime@insuranceinsider.com

EVENTS CO-ORDINATOR
Genevieve Thompson-Munro
genevieve.thompson-munro@insuranceinsider.com

PRODUCT MANAGER
Carlos Pallordet
Carlos.pallordet@insuranceinsider.com

PRODUCTION EDITOR
Peter Williams
peterw@insuranceinsider.com

SUB-EDITOR
Ewan Harwood
ewan@insuranceinsider.com

ART DIRECTOR
Paul Sargent
paul@insuranceinsider.com

Copyright Terms & Conditions
No part of this publication may be used, distributed, reproduced, or stored in any manner whatsoever without the express written permission of Euromoney Trading Ltd. Distribution of this issue is limited to the named subscriber only, unless separately licensed. Any usage that is made outside of these terms & conditions without the prior written permission from Euromoney Trading Ltd may therefore infringe our copyright which will result in personal and corporate liability, detailed in our Legal Disclaimer on www.insuranceinsider.com/terms-and-conditions. Further distribution of, or access in any other form of The Insurance Insider by other persons is a breach of copyright and is prohibited whether working for the same entity or not. Euromoney Trading Ltd actively monitors the use and distribution of its publication and will take steps to prosecute any misuse. To ensure you do not infringe our copyright we offer Corporate Licences which enable companies to receive multiple copies of The Insurance Insider at discounted rates. Corporate Licences can be tailored to meet your company needs and are the only viable way of ensuring you do not breach our copyright. If there are multiple users of our content, for further information please contact Anna Lightholder on +44 (0)20 7397 0619 or email anna@insuranceinsider.com

3rd Floor, 41 Eastcheap, London, EC3M 1DT, UK, Tel Main: +44 (0)20 7397 0615, Editorial: +44 (0)20 7397 0618, Subscriptions: +44 (0)20 7397 0619, Fax: +44 (0)20 7397 0616

MC Day 3.indb 34
12/09/2016 17:05
Cat modelling challenges in Europe

2016 marks the 60th year of the Monte Carlo Rendez-Vous. Since the first event in 1957 the insurance world has changed significantly, with economic and insured losses from natural catastrophes such as floods and hurricanes increasing dramatically.

This trend has in turn increased demand for improved measurability and risk modelling to allow carriers to better understand exposures and to create a more reliable view of a company’s total risk exposure.

On a global basis, the key drivers of the increase in insured losses have been population growth, urbanisation and increased insurance penetration. Other contributing factors, including climate change, may also have been an influence.

In Europe, population growth has been more modest than in other parts of the world, with the continent’s population increasing by 27 percent since 1957 from 580 million to 740 million. In comparison, the total world population increased by 161 percent from 2.8 billion to 7.4 billion during the same period.

But although its numbers have grown by less than the rest of the world, Europe has experienced a steady rise in urbanisation that has led to increased concentration of insured risk.

While there is still uncertainty regarding the degree of impact from climate change, the likely consequences are subject to modelling. Increasing global temperatures are projected to impact the mid-latitude and polar regions more than the tropics. This is expected to lead to two outcomes. First, the temperature gradient between the poles and the equator will drop, which will reduce storm formation. Second, the higher overall temperature will increase evaporation and the amount of water vapour in the atmosphere will lead to more intense storms. The projected impact of these two changes is increased frequency of both extreme rainfall events and extended dry periods in Europe.

As a result of these and other factors, the Intergovernmental Panel on Climate Change has identified three main areas of risk for Europe:

1. That increases in sea levels, coastal erosion and peak river discharges, combined with increased urbanisation, will lead to greater economic losses as a direct result of flooding.

2. A reduction in water availability due to increased abstraction from river and groundwater and increased evaporative load will result in increased risk of drought conditions, especially in southern Europe.

3. An increased occurrence of extreme heat events will impact human health, crops and the generation of wildfires.

In view of these projections, (re)insurers are working hard to gain a better understanding of their natural catastrophe risk through the use of catastrophe models. There are two main lines of development.

“As windstorms and earthquakes are modelled by more than one vendor, the biggest challenge for Europe is flood”

First, (re)insurers need to gain a deeper understanding of how the existing commercial vendor models perform for their book of business, how the models can be best modified or customised to better reflect their own loss history, and how the models compare to each other. Second, (re)insurers need to continue to address gaps in knowledge that are not adequately covered by existing models.

As this is an expensive, complex and time-consuming effort, the current trend is for companies to choose a single platform as their primary model and then complement wherever necessary with a secondary model.

We have seen greater interest in using the Oasis Loss Modelling Platform as a secondary modelling platform. It provides an open-source way of bringing models from many providers onto a common framework – including smaller commercial and academic teams and in-house developed models – and allows the insurer to do so without recourse to a third party.

As windstorms and earthquakes are modelled by more than one vendor, the biggest challenge for Europe is flood. Europe is somewhat unusual in that it has countries with small geographies and comparatively large rivers. Single flood events can hit more than one country and create correlation issues for insurers and reinsurers. The most notable example of this is the River Danube, which touches 10 countries as it makes its way from Germany to the Black Sea.

Flood poses particular challenges for modelling. In particular, the hydraulic modelling of flood extents requires a high-quality digital terrain model that has been processed specifically for the task by removing features like bridges.

The computational demand for hydraulic modelling is very high, especially as the size of the area to be modelled increases and flood is also one of the few perils that humans can directly influence through the construction of defence structures. Unfortunately, detailed data on the presence, construction standard and operational regimes of defences is not universally available, and so considerable effort is needed by modellers to quantify this aspect.

Finally, as flood damage occurs in a fairly binary manner – either you are in the water or not – we need to have very accurate information on the location of the risks to be modelled, which is often lacking, especially in developing regions.

Despite these challenges the first models for flood in Europe began appearing in 2004. While commercial vendors have been slow to address the gap so far, others, including brokers, have been steadily producing models.

Guy Carpenter has produced a range of flood models for key countries and a pan-European hailstorm model based on detailed claims data.

The main challenge moving forward for companies is to bring the broad range of models available together into a single core platform, or possibly two, so that insurers can establish a comprehensive view of flood risk.

Mark Weatherhead
Head of Model Development – International, Guy Carpenter
Disrupt Your Risk

Disruptive innovation will continue to accelerate the pace of change in the industry. New technologies unlock opportunity and efficiency, but can create unexpected risk challenges. Our technology-enabled solutions help clients advance their analytic insight and empower confident, risk-informed decisions to grow their business, profitably.

Game Changing Analytics